

Ref: ISD/PAJ

Ms K Barker
Barker Review
1 Horse Guards Road
London
SW1A 2HQ

30 July 2003

Dear Ms Barker

RE: BARKER REVIEW OF HOUSING SUPPLY

Thank you for your letter of 9th June asking for the Industry's comments on this subject for your review. Here is the view of Lovell Partnerships. Lovell is the largest builder of social housing in the country. Last year we completed 1250 homes for the RSL sector, 750 homes for sale and refurbished 10,000 homes for RSL and local authority tenants.

ISSUE 1

Is there a shortage of suitable land for development? Are there any factors which reduce landowners' willingness to sell?

Land will always be constrained as it is a finite resource and land with planning permission for housing is even more finite. However, allocating land in development plans does not always translate into delivery. PPG9 has designated 22,000 homes to be built per year but we are only building 12,000. The Government is now pushing for development to be on 'Brownfield' sites. These, by their nature are even scarcer than 'Greenfield'. They are also usually in urban areas which tend to incur higher costs of development. Landowners can only sell their land once and therefore, want to maximise their return. They will look at the social housing levy and take a view on the financial viability of alternative uses for that land or a deferral of the sale until there is a more favourable regime.

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Are there problems associated with land assembly particularly green field sites?

Yes. Land assembly of Brownfield sites will generally involve multiple ownership and land use classification. In the past, local authorities have not been good at organising change of use and compulsorily purchasing land to facilitate land assembly. In the best of circumstances this can be a lengthy process.

Does the process of optioning land restrict the overall supply of land?

No. Options are usually taken out on land which is not designated in the development plan as 'housing land'. An option is taken out in the hope/belief that in the future, there will be a change of use for that land. This leads to lobbying to change the use and bring it into the supply side as land to be used for housing.

Is optioning necessary? If so why?

Housing developers option land to try and give them some continuity of work, to even out the peaks and troughs of land availability. Lovell generally do not option land as our main business is the development of social housing and we work in partnership with RSLs and Local Authorities, usually on brown field sites to guarantee supply.

Is the land allocated for housing in local development plans sufficient to meet housing need?

Various reasons, including remediation, planning delays and the unwillingness of land owners to sell, ensure that only a part of the land designated for building on, is used. Because of that, more land needs to be designated for housing. But there is also a geographical dimension to this in that the designated land must be where people want to live.

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Is the RPG housing shortfall explained by a shortfall in the number of appropriate planning applications?

It may be. Lovell does not put in inappropriate planning applications. We work with social housing partners and try very hard to comply with planning guidance to make the process go smoothly. Even so we experience significant delays. Speculative developers are known to put in multiple applications (sometimes inappropriately) then twin track them to appeal. Lovell does not engage in this process.

On a more general note it should be emphasised that planning guidance is often multilayered and confusing, in fact sometimes contradictory. This will lead to inappropriate planning applications.

ISSUE 2

Do house builders face difficulties accessing finance?

Lovell has no specific external funding as we are part of the Morgan Sindall group and are group funded. However, it is clear that the city do not see house building as a good investment. It is considered too volatile. This is why speculative builders land-bank. We feel the new stability in interest rates will help the market.

Do shortages of essential skilled workers exist and can alternative production techniques overcome this problem?

We are experiencing skills shortages all over the country but not to the extent that it is damaging our business. We have a number of internal schemes and projects which guarantee us a stream of trainees and apprentices. We also support a large number of similar external schemes.

Lovell is investing significant resources in the investigation of modern methods of fabrication and expects it to form a significant part of its business in the future. However, there is currently insufficient capacity within that sector and it is expensive when compared with traditional methods, although we expect the prices to reduce as the capacity grows.

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Do attitudes to risk deter investment in land for housing?

House building construction is a high risk industry. All the investment is at the front end of the process and an old rule of thumb says 'in cash terms you only take profit from the last 5 houses completed'. Although nowadays, contracting companies including Lovell do not account for our businesses in this way, the principle remains that the profit is at the back end of the process. The business also copes with unknowns such as ground conditions, planning and the housing market. Counter-intuitively, although the business is high risk the profit margins are low, which in turn adds to the risk.

The new planning act proposes to replace outline planning consent with a statement of development principles. This will increase the risk for investors.

Do internal rates of return deter additional investment either in land or alternative production methods?

Lovell is a mixed tenure business and because our portfolio contains a good percentage of 'contracting', we enjoy good rates of return on our investment.

Is there potential for increasing the use of alternative manufacturing methods? Is this potential affected by consumer preference or the attitude of mortgage lenders and insurers?

There is potential to increase the use of offsite manufacturing. Lovell already uses some of these methods and is actively pursuing others. Currently offsite manufacturing only represents a small percentage of the market and as a consequence is comparatively expensive. A recent meeting with the Housing Forum discussed the possibility of the government incentivising this form of construction until a critical mass is reached. We support that option.

We find timber framed manufacture to be completely acceptable to the house buying public and lenders and insurers. There is more reticence about steel framed and volumetric but we do not believe this will be a problem in the longer term.

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It has been suggested that the economies of scale are not sufficient in the UK to make these off-site production techniques a viable option? Is this the case?

See above. The market does need to grow and will do so with the right incentives.

Are the working capital requirements and cash flow implications of modular building a barrier to their use?

This depends on who is carrying the risk and costs of the components. As a contractor/builder we would be happy to purchase these systems, from the manufacturer, on a Just In Time basis, which may have a positive effect on our cash flows.

Are there particular problems in developing brown-field land due to contamination or dereliction? To what extent are such problems obstacles to development decisions? How much more expensive can this make brown-field land?

The problems of developing brown-field land do not stop with dereliction or contamination. These issues are discussed further in section 1. If the full extent of the contamination is known about, it will have a direct bearing on the land value. Two other factors also need to be considered. Firstly, remediation takes time as well as cost and secondly, until ground works have begun, will always carry a risk.

ISSUE 3

Are there problems with the interpretation of planning guidance by local authorities, if so what are they and why?

Planning guidance can be interpreted a number of ways and is often in contradiction with other planning guidance or other government advice. The planning Green Paper acknowledges this. All developers will have schemes which only stack-up if certain guidance is used. An example of this is Stratford City site where the developer and the borough of Newham want 35% affordable housing and the GLA will insist on 50%. The Green Paper examines this issue in some depth.

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Are there any particular aspects of planning policy which do not properly reflect the wider social and economic costs and benefits of housing?

Within London there is a problem with section 106s and the GLA levy of 50%. It is widely acknowledged that London needs two forms of house building. One is private housing to house London's workers and keep London going as a world class city. The second form is subsidised housing to deal with the increasing numbers of homelessness. What section 106s and the GLA levy seek to do, is link these two inextricably. This does not result in large numbers of social housing but rather serves to reduce the supply of private housing, as is proved by the figures.

Section 106s are complex, esoteric and take a long time to resolve. There is no standard way to negotiate them and each borough has its own requirements and idiosyncrasies. It can be argued that there is no critical mass of knowledge in each borough as the planning department is too small to deal with some of the complex regeneration schemes in London and the south east.

It should also be recognised that planning officers generally reflect the views of their members and the members reflect the views of their constituents. The local nature of planning will usually result in a conservative attitude when it comes to agreeing large scale, high density developments.

Does the planning system provide incentives to develop brown field land?

We have never found any incentives and usually experience higher cost penalties.

Is planning guidance applied appropriately?

We have found that it can be, but is not consistently so.

Is the current reform programme sufficient to address inefficiencies in the planning system?

As mentioned before the Green Paper has identifies some of the problems and the Planning Act is trying to address some of these but in other instances for example abolishing outline planning permission, it may be throwing the baby out with the bathwater. We recommend that the section 106 process needs a thorough overhaul.

Are section 106 agreements an affective means for addressing and mitigating the impact of developments?

They could be. Clearly any large development of housing will have effects on the surrounding community and adaptation to high-ways may need to be made; additions to schools may need to be built. But they now seem to have become shorthand for a social housing levy, which may have a detrimental effect on the economic balance of the area and may lead to the development not going ahead.

Do section 106 agreements create any perverse incentives?

They can do because a lot of time and energy goes into trying to get out of them or reduce the implications. As mentioned above they may halt the development. However, they are one of the local authority's tools for social inclusion and for reducing their levels of homelessness.

Do building regulations restrict development?

We do not believe they do. Lovell regards the building regulations as important safety and quality tools.

Do regulations governing "change of use" effect the use of existing buildings for housing?

Many brown field sites are currently unused but their designated use is for employment, industrial or commercial rather than housing. Local authorities are often unwilling to change their use to housing as they have political aspirations to attract employment to their borough. The industry believes that such a change of use would greatly increase the number of brown field sites for housing. Both Lord Rooker and Keith Hill have recently made statements about this. But it is worth adding that getting 'change of use' can be a lengthy process.

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Are there market failures you can identify effecting the development of environmentally sustainable housing, regeneration of urban areas and protection of the countryside?

Lovell has no examples of market failures but we have numerous examples where the delays, as a result of environmental factors, have been so lengthy that the job did not break even and lost money for the company. Where protected wildlife is found on a site, we have observed that organisations such as English Nature have neither the resources nor the incentive to deal with the situation quickly.

How does the tax regime influence the use of land? For example the tax treatment of new build homes differs from that for conversions of existing housing stock- does this preclude certain types of development? Does taxation prevent the most efficient and effective use of land?

We agree that the tax system may be a disincentive to refurbishment and feel that VAT could be dropped for refurbishment for sale.

Stamp duty is used to manipulate the market in certain areas.

ISSUE 4

Why has the industry not expanded the provision of affordable housing or housing for rent?

Are there additional barriers that have prevented this expansion?

Affordable housing is usually subsidised housing. The expansion of affordable housing for rent is limited by the availability of this subsidy. It can come in the form of land gifted by the government or local authority, social housing grant or cross subsidy from housing for sale. Where these are not available, social rented family housing cannot be made to work. Private housing for rent is only possible in certain circumstances where high rents can be commanded or with tax breaks.

Are these areas of provision simply not profitable?

Building social housing is less profitable than speculative building. Lovell specialises in this work and has built relationships with RSLs, which has led to us carving a niche in this market.

Is the private rental sector an attractive investment option, if so why?

It is not attractive to us as a builder/developer. However we recognise that a lot of the properties we sell are sold to buy-for-rent investors.

I hope you find these comments interesting and helpful. If you would like any clarification or further discussion on these points, please do not hesitate to contact our Director of Strategy, Mary Lynch on 07740 376115.

Yours sincerely

Stewart Davenport
Managing Director